

Top Secret

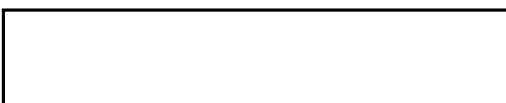


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May 8, 1974



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Approved For Release 2004/04/12 : CIA-RDP79T00975A026400110001-6

Approved For Release 2004/04/12 : CIA-RDP79T00975A026400110001-6

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*PORTUGAL: A flowering of new political parties and groupings has created a fluid political situation in Lisbon, although the junta remains in control.

A majority of these new parties are leftist and include in their ranks returning political exiles, recently freed political prisoners, and others who have emerged from hiding after years of clandestine operations. The proliferation of these groups has added to the junta's difficulties in deciding who will participate in the provisional government it has promised to form by mid-May.

The climate of political tolerance has sparked political demonstrations and seizures of public institutions. One large group of demonstrators protested in front of junta headquarters for better pay and shorter hours. Last week, well-organized employee groups took over the telephone company, Lisbon's central market, and some local government bodies.

The junta reacted to this activity on May 5 by issuing a toughly worded statement that such acts will be considered "insubordination and crimes against the Armed Forces Movement." The Portuguese Communist Party issued a similar warning, but even if sincere, the Communists cannot control the extreme left. Institutional upheavals and demonstrations have diminished this week, but there is widespread concern within the business community that the country is headed for a period of economic disorder.

This pessimism apparently is shared by some West European trade union leaders. Georges Debunne, vice president of the International Confederation of Free Trade Unions, recently told a group of Western labor attachés that he is seriously concerned about the ability of Socialist trade unions in Portugal to compete with the better financed Communist unions. He said that he and other European labor leaders would soon visit Portugal to demonstrate their support for Socialist Party leader Mario Soares. [REDACTED]

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*Because of the shortage of time for preparation of this item, the analytic interpretation presented here has been produced by the Central Intelligence Agency without the participation of the Bureau of Intelligence and Research, Department of State.

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NATIONALIST CHINA: Premier Chiang Ching-kuo's austerity program shows some signs of success, but it is causing misgivings in government and business circles as the country's foreign trade position continues to deteriorate and business is hard-pressed for funds.

Faced with growing inflation aggravated by the surging price of imported oil, the Premier in January launched an economic stabilization program which relies heavily on a tight money policy. Some upper-level bureaucrats and businessmen have predicted that many small businesses will go under if they cannot get badly needed loans. Differences over economic policy have led to uncharacteristically heated debates in the cabinet. The Premier, however, will probably continue the stabilization program with only slight modifications for at least several more months.

There are signs that the stabilization program is having some success. The money supply declined 7 percent in February, and prices of some commodities seem to be leveling off. The foreign trade sector, however, remains a question mark. In 1973, foreign sales accounted for approximately half of Taiwan's gross national product, but poor export performance this year has contributed to a business slump. As a result, real economic growth is expected to slow to 8 percent this year compared with over 11 percent each year since 1970.

Meanwhile, the cost of imports has soared because of major price hikes for oil, other commodities, and many industrial products. Taiwan achieved a trade surplus of \$56 million in the first quarter of 1974, but this was only one third the average quarterly surplus recorded in 1973 because imports rose considerably faster than exports.

Taiwan economists foresee several more months of sluggish export growth until adjustments are made to compensate for higher costs of labor and materials.

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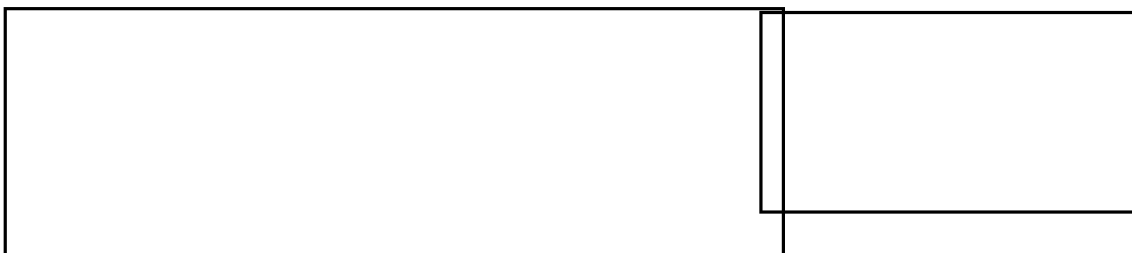
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The key factors in a restoration of vigorous export growth will be the demand conditions in the United States and Japan, Taiwan's leading markets, and the international competitiveness of Taiwan's products--particularly in relation to other East Asian producers such as South Korea and Malaysia.

Mindful of the role that economic discontent played in the Nationalists' loss of the mainland, the Premier has taken action to ease the impact of inflation on the armed forces and government bureaucracy. Both groups will receive a 40-percent pay boost in July--a move likely to increase pressure for wage hikes in the private sector and to undermine the anti-inflation program.

Skepticism about the Premier's handling of the economy has been reinforced by criticism among some officials and businessmen of his hard-line policy on the civil air issue with Japan. This policy resulted in a rupture in the profitable traffic carried between the two countries by both the Chinese and Japanese international airlines.

Chiang Ching-kuo has worked hard to build his public image as a leader able to handle affairs efficiently and confidently. Should he prove unable to deal effectively with current economic problems, this image would be undermined among important political and economic circles in Taiwan.



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FOR THE RECORD

Africa: The leaders of the two main Angolan insurgent organizations are scheduled to hold discussions today in Dar es Salaam with the foreign ministers of Zaire, Zambia, Tanzania, and Congo--countries that have long provided the insurgents with refuge and other important aid. One of the insurgent groups on May 6 publicly rejected a Portuguese offer for a cease-fire and negotiations, but the insurgents may be under pressure from their African benefactors to soften their stand.

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In view of the inability of the Angolan insurgents to make any military gains in recent years, the participants at the Dar es Salaam meeting may decide to send out discreet feelers to the Portuguese.

Sudan: National Assembly elections that began April 10 are scheduled to end today. Election of the assembly is the last phase of a program designed to provide a measure of representative government. The elections are also intended to legitimize President Numayri's Sudan Socialist Union. The Union, founded in January 1972, is the country's only mass political organization. It will dominate the assembly, which is to convene on May 25, the fifth anniversary of Numayri's coup.

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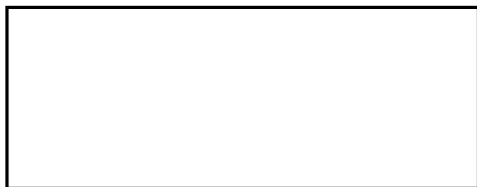
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